



MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, October 27, 2015
1:30 pm – 2:30 pm
Fourth Floor Conference Room #2
Civic Center, 2000 Main Street
Huntington Beach, California 92648

CALL TO ORDER

The meeting was called to order at 1:40 pm.

ROLL CALL

Present: Mr. Fred A. Wilson, City Manager
Ms. Alisa Cutchen, City Treasurer

Absent: Ms. Lori Ann Farrell, Director of Finance

Guests: Ms. Joyce Zacks, Deputy City Treasurer
Mr. Colin Stevens, Treasury Analyst
Mr. Chris Rowey, Benefit Funding Services Group (BFSG)
Mr. Darren Stewart, BFSG
Mr. Richard Rosenthal, U.S. Bank
Mr. Yuval Selik, U.S. Bank

PUBLIC COMMENTS

Ms. Cutchen asked the members of the public for comment but received no reply.

APPROVAL OF MEETING MINUTES

The Committee reviewed and approved minutes from the July 28, 2015 meeting.

BFSG PORTFOLIO REVIEW

The Committee received and filed the Quarterly Investment Review dated September 30, 2015. Mr. Rowey provided a brief overview of economic and market conditions as they related to the performance of the Plan's investments.

The allocation of the Plan is within the permissible ranges set forth in the Investment Policy Statement (IPS). This includes the exception granted by the Committee for Columbia Corporate Income to be considered in the Intermediate Bond category. Based on 2015 capital market assumptions, the 10-year expected return of the IPS portfolio and the actual portfolio are close to the return used for actuarial purposes.

As of September 30, 2015, the portfolio has outperformed the Static Benchmark on a 1-, 3-, and 5-year basis but slightly underperformed for the quarter and year. The portfolio has outperformed the Passive Benchmark across all measured periods with the exception of the quarter and 5-year period.

During the quarter, U.S. Bank replaced Nuveen Strategic Income with Federated High Yield. The long-term management team tends to keep the credit risk of the portfolio in-line with peers.

BFSG brought up newly available share classes of two of the funds in the portfolio that will save the Plan approximately \$8,200 per year in expenses. T. Rowe Price Mid Cap Value and T. Rowe Price International Growth & Income now have I shares available.

REQUEST FOR PROPOSAL

The Committee discussed the possibility of conducting a formal Request for Proposal for Investment Management. U.S. Bank has served as the Investment Manager since the Plan's inception 5 years ago. BFSG recently conducted a Request for Information on behalf of the Committee which showed that U.S. Bank's fees are reasonable. The Committee agreed to table the decision until next meeting when all members are present.

U.S. BANK PORTFOLIO REVIEW

The Committee received and filed U.S. Bank's Quarterly Portfolio Review dated September 30, 2015. As of September 30, 2015, the portfolio consisted of 59% equity, 30% fixed income, 9% real estate, 1% commodities and 1% cash. The reduction in equity is due to performance of the asset class and not an active move by U.S. Bank. Plan assets declined during the quarter to \$42.0 million.

BFSG informed U.S. Bank of the newly available share classes and Mr. Rosenthal asked Mr. Stewart to provide the tickers via email.

Mr. Rosenthal addressed the underperformance of the fixed income portion of the portfolio. That portion is built for an improving economy and rising interest rates, both of which failed to occur during the third quarter. A significant underweight to commodities has proven beneficial for the portfolio.

Mr. Rosenthal informed the Committee that Laudus International MarketMasters has been placed on the internal Watch List of U.S. Bank. Furthermore, Oppenheimer Developing Markets has been removed from the approved list by U.S. Bank, however there is no requirement to sell it at this time. Mr. Rosenthal did not have details on the reasoning, but will provide them to the Committee prior to the next meeting. Mr. Rosenthal is considering replacing the fund with either Causeway Emerging Markets or Baron Emerging Markets.

Over the past 12 months, the portfolio returned -2.84%, which outperformed the custom benchmark at -3.61%. An underweight in commodities contributed to performance while poor fund selection in fixed income detracted from performance.

MEETING SCHEDULE FOR 2016

Linda Wine will send out potential dates for next year's meeting in the coming week.

ADJOURNMENT

With no further issues to discuss the meeting was adjourned at 2:45 pm.